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St. Louis Municipal-Bond Underwriter Agreed to Pay-to-Play Fine.

L.J. Hart & Co., a St. Louis-based municipal-bond underwriter, agreed to pay a $200,000 fine to settle charges that it violated pay-to-play rules by giving tickets to sporting events to win work from schools and counties.

L.J. Hart gave school and county officials more than 2,000 tickets to attend games played by the Kansas City Chiefs, St. Louis Cardinals and other teams, according to Financial Industry Regulatory Authority documents. The tickets were valued at $183,546.

The gifts show that securities regulators haven't eliminated underwriters' practice of giving gifts to public officials from whom they seek business in the $3.7 trillion municipal-bond market. This year about three-fourths of the $233.4 billion of municipal debt sold has been through negotiation, instead of competitive bidding, according to data compiled by Bloomberg.

"The regulators need to go further in limiting gifts," said Joy Howard, principal with WM Financial Strategies, a St. Louis-based financial adviser who favors competitive sales. "If you're doing competitive bidding, all of this is a moot point."

With competitive sales, governments take bids on their bonds the way they would for construction contracts or office-supply products. With negotiated sales, the officials hire underwriters to place the bonds with investors.

Financial Incentives

The firm agreed to a settlement in a Finra disciplinary proceeding. L.J. Hart didn't admit or deny allegations that it violated Municipal Securities Rulemaking Board rules designed to remove financial incentives in awarding underwriting business for negotiated deals, according to a Finra order dated Sept. 24. The Alexandria, Virginia-based MSRB makes rules for the municipal-bond market.

The firm broke MSRB gift rules because its own officials didn't attend events with the clients, according to the Finra order. If firm officials had attended, the firm wouldn't have violated the restrictions.

L.J. Hart, which has been giving tickets since 1994, "never used the tickets as an inducement" to be hired, according to a document the firm said it submitted to Finra. The firm said it didn't think it was necessary to accompany public officials to the games.

"L.J. Hart uses the tickets as an expression of its appreciation to its clients for their previous business and to serve as a reminder advertising of L.J. Hart's services," according to the document.

Past Gifts

Larry J. Hart, founder and principal, said in an interview that the firm had provided regulators information about its gifts in past audits and that no questions had been raised. The firm has changed its policies to require firm officials to attend events with clients, he said.

“We agreed to settle to proceed as a business and to avoid extensive legal costs,” said Hart.

The ruling, which covered actions between January 1, 2009, and March 31, 2011, was reported earlier today in the St. Louis Post-Dispatch.

The MSRB supports “vigorous enforcement” of its gift rules, which are “designed to preserve the integrity of the municipal market,” said Lynnette Kelly, executive director, in an e-mailed statement. “The public needs to have confidence that municipal securities business is awarded based on an underwriter’s qualifications and not its ability to provide tickets to coveted sporting events.”

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